

PREVAILED

Roll Call No. _____

FAILED

Ayes _____

WITHDRAWN

Noes _____

RULED OUT OF ORDER

HOUSE MOTION _____

MR. SPEAKER:

I move that Engrossed Senate Bill 213 be amended to read as follows:

- 1 Page 4, between lines 34 and 35, begin a new paragraph and insert:
- 2 "SECTION 5. IC 6-3-1-34 IS ADDED TO THE INDIANA CODE
- 3 AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE
- 4 JANUARY 1, 2006]: Sec. 34. (a) "Investment limited partnership"
- 5 means an entity that is treated as a partnership for federal income
- 6 tax purposes that meets the following requirements:
- 7 (1) At least ninety percent (90%) of the value of the
- 8 partnership's total assets consists of qualifying investment
- 9 securities, deposits at banks or other financial institutions, and
- 10 office space and equipment reasonably necessary to carry out
- 11 the activities of a limited investment partnership.
- 12 (2) At least ninety percent (90%) of the partnership's gross
- 13 income consists of dividends and gains from the sale or
- 14 exchange of qualifying investment securities.
- 15 (3) Except as provided in subsection (b), the partnership is not
- 16 a dealer in qualifying investment securities.
- 17 (b) An investment limited partnership may be a dealer in
- 18 commodities.
- 19 SECTION 6. IC 6-3-1-35 IS ADDED TO THE INDIANA CODE
- 20 AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE
- 21 JANUARY 1, 2006]: Sec. 35. (a) As used in section 34 of this
- 22 chapter, "qualifying investment securities" refers to any of the
- 23 following:
- 24 (1) Common stock, including preferred or debt securities
- 25 convertible into common stock, and preferred stock.

(2) Bonds, debentures, and other debt securities.

(3) Foreign and domestic currency deposits secured by federal, state, or local governmental agencies.

(4) Mortgage or asset-backed securities secured by federal, state, or local governmental agencies.

(5) Repurchase agreements and loan participations.

(6) Foreign currency exchange contracts and forward and futures contracts on foreign currencies.

(7) Stock and bond index securities and futures contracts and other similar financial securities and futures contracts on those securities.

(8) Options for the purchase or sale of any of the securities, currencies, contracts, or financial instruments described in subdivisions (1) through (7).

(9) Regulated futures contracts.

(10) Except as provided in subsection (b), commodities (not described in Section 1221(a)(1) of the Internal Revenue Code) or futures, forwards, and options with respect to the commodities.

(11) Derivatives.

(12) A partnership interest in another limited investment partnership.

(b) A physical commodity is not a qualifying investment security if an investment limited partnership acquires title to the commodity in the investment limited partnership's capacity as a dealer of the commodity.

SECTION 7. IC 6-3-2-2 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JANUARY 1, 2006]: Sec. 2. (a) With regard to corporations and nonresident persons, "adjusted gross income derived from sources within Indiana", for the purposes of this article, shall mean and include:

(1) income from real or tangible personal property located in this state;

(2) income from doing business in this state;

(3) income from a trade or profession conducted in this state;

(4) compensation for labor or services rendered within this state; and

(5) income from stocks, bonds, notes, bank deposits, patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other intangible personal property if the receipt from the intangible is attributable to Indiana under section 2.2 of this chapter.

In the case of nonbusiness income described in subsection (g), only so much of such income as is allocated to this state under the provisions of subsections (h) through (k) shall be deemed to be derived from sources within Indiana. In the case of business income, only so much of such income as is apportioned to this state under the provision of

subsubsection (b) shall be deemed to be derived from sources within the state of Indiana. In the case of compensation of a team member (as defined in section 2.7 of this chapter) only the portion of income determined to be Indiana income under section 2.7 of this chapter is considered derived from sources within Indiana. In the case of a corporation that is a life insurance company (as defined in Section 816(a) of the Internal Revenue Code) or an insurance company that is subject to tax under Section 831 of the Internal Revenue Code, only so much of the income as is apportioned to Indiana under subsection (r) is considered derived from sources within Indiana. **For purposes of this article, income received by a nonresident limited partner after December 31, 2005, from an investment limited partnership is not adjusted gross income derived from sources within Indiana, regardless of whether the investment limited partnership's commercial domicile is in Indiana.**

(b) Except as provided in subsection (l), if business income of a corporation or a nonresident person is derived from sources within the state of Indiana and from sources without the state of Indiana, then the business income derived from sources within this state shall be determined by multiplying the business income derived from sources both within and without the state of Indiana by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three (3). However, after a period of two (2) consecutive quarters of income growth and one (1) additional quarter (regardless of any income growth), the fraction shall be computed as follows:

(1) For all taxable years that begin within the first calendar year immediately following the period, the numerator of the fraction is the sum of the property factor plus the payroll factor plus one hundred thirty-three percent (133%) of the sales factor, and the denominator of the fraction is three and thirty-three hundredths (3.33).

(2) For all taxable years that begin within the second calendar year following the period, the numerator of the fraction is the property factor plus the payroll factor plus one hundred sixty-seven percent (167%) of the sales factor, and the denominator of the fraction is three and sixty-seven hundredths (3.67).

(3) For all taxable years beginning on or after January 1 of the third calendar year following the period, the numerator of the fraction is the property factor plus the payroll factor plus two hundred percent (200%) of the sales factor, and the denominator of the fraction is four (4).

For purposes of this subsection, income growth occurs when the state's nonfarm personal income for a calendar quarter increases in comparison with the state's nonfarm personal income for the immediately preceding quarter at an annualized compound rate of five percent (5%) or more,

as determined by the budget agency based on current dollar figures provided by the Bureau of Economic Analysis of the United States Department of Commerce or its successor agency. The annualized compound rate shall be computed in accordance with the formula $(1+N)^4-1$, where N equals the percentage change in the state's current dollar nonfarm personal income from one (1) quarter to the next. As soon as possible after two (2) consecutive quarters of income growth, the budget agency shall advise the department of the growth.

(c) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the taxable year. However, with respect to a foreign corporation, the denominator does not include the average value of real or tangible personal property owned or rented and used in a place that is outside the United States. Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight (8) times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from subrentals. The average of property shall be determined by averaging the values at the beginning and ending of the taxable year, but the department may require the averaging of monthly values during the taxable year if reasonably required to reflect properly the average value of the taxpayer's property.

(d) The payroll factor is a fraction, the numerator of which is the total amount paid in this state during the taxable year by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the taxable year. However, with respect to a foreign corporation, the denominator does not include compensation paid in a place that is outside the United States. Compensation is paid in this state if:

- (1) the individual's service is performed entirely within the state;
- (2) the individual's service is performed both within and without this state, but the service performed without this state is incidental to the individual's service within this state; or
- (3) some of the service is performed in this state and:
 - (A) the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in this state; or
 - (B) the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual is a resident of this state.

(e) The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this state during the taxable year, and the denominator of which is the total sales of the taxpayer everywhere

during the taxable year. Sales include receipts from intangible property and receipts from the sale or exchange of intangible property. However, with respect to a foreign corporation, the denominator does not include sales made in a place that is outside the United States. Receipts from intangible personal property are derived from sources within Indiana if the receipts from the intangible personal property are attributable to Indiana under section 2.2 of this chapter. Sales of tangible personal property are in this state if:

(1) the property is delivered or shipped to a purchaser, other than the United States government, within this state, regardless of the f.o.b. point or other conditions of the sale; or

(2) the property is shipped from an office, a store, a warehouse, a factory, or other place of storage in this state and:

(A) the purchaser is the United States government; or

(B) the taxpayer is not taxable in the state of the purchaser.

Gross receipts derived from commercial printing as described in IC 6-2.5-1-10 shall be treated as sales of tangible personal property for purposes of this chapter.

(f) Sales, other than receipts from intangible property covered by subsection (e) and sales of tangible personal property, are in this state if:

(1) the income-producing activity is performed in this state; or

(2) the income-producing activity is performed both within and without this state and a greater proportion of the income-producing activity is performed in this state than in any other state, based on costs of performance.

(g) Rents and royalties from real or tangible personal property, capital gains, interest, dividends, or patent or copyright royalties, to the extent that they constitute nonbusiness income, shall be allocated as provided in subsections (h) through (k).

(h)(1) Net rents and royalties from real property located in this state are allocable to this state.

(2) Net rents and royalties from tangible personal property are allocated to this state:

(i) if and to the extent that the property is utilized in this state; or

(ii) in their entirety if the taxpayer's commercial domicile is in this state and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

(3) The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year, and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property

1 was located at the time the rental or royalty payer obtained possession.

2 (i)(1) Capital gains and losses from sales of real property located in
3 this state are allocable to this state.

4 (2) Capital gains and losses from sales of tangible personal property
5 are allocable to this state if:

6 (i) the property had a situs in this state at the time of the sale; or

7 (ii) the taxpayer's commercial domicile is in this state and the
8 taxpayer is not taxable in the state in which the property had a
9 situs.

10 (3) **Subject to subsection (a)**, capital gains and losses from sales of
11 intangible personal property are allocable to this state if the taxpayer's
12 commercial domicile is in this state.

13 (j) **Subject to subsection (a)**, interest and dividends are allocable to
14 this state if the taxpayer's commercial domicile is in this state.

15 (k)(1) Patent and copyright royalties are allocable to this state:

16 (i) if and to the extent that the patent or copyright is utilized by the
17 taxpayer in this state; or

18 (ii) if and to the extent that the patent or copyright is utilized by
19 the taxpayer in a state in which the taxpayer is not taxable and the
20 taxpayer's commercial domicile is in this state.

21 (2) A patent is utilized in a state to the extent that it is employed in
22 production, fabrication, manufacturing, or other processing in the state
23 or to the extent that a patented product is produced in the state. If the
24 basis of receipts from patent royalties does not permit allocation to
25 states or if the accounting procedures do not reflect states of utilization,
26 the patent is utilized in the state in which the taxpayer's commercial
27 domicile is located.

28 (3) A copyright is utilized in a state to the extent that printing or
29 other publication originates in the state. If the basis of receipts from
30 copyright royalties does not permit allocation to states or if the
31 accounting procedures do not reflect states of utilization, the copyright
32 is utilized in the state in which the taxpayer's commercial domicile is
33 located.

34 (l) If the allocation and apportionment provisions of this article do
35 not fairly represent the taxpayer's income derived from sources within
36 the state of Indiana, the taxpayer may petition for or the department
37 may require, in respect to all or any part of the taxpayer's business
38 activity, if reasonable:

39 (1) separate accounting;

40 (2) the exclusion of any one (1) or more of the factors;

41 (3) the inclusion of one (1) or more additional factors which will
42 fairly represent the taxpayer's income derived from sources within
43 the state of Indiana; or

44 (4) the employment of any other method to effectuate an equitable
45 allocation and apportionment of the taxpayer's income.

46 (m) In the case of two (2) or more organizations, trades, or
47 businesses owned or controlled directly or indirectly by the same

interests, the department shall distribute, apportion, or allocate the income derived from sources within the state of Indiana between and among those organizations, trades, or businesses in order to fairly reflect and report the income derived from sources within the state of Indiana by various taxpayers.

(n) For purposes of allocation and apportionment of income under this article, a taxpayer is taxable in another state if:

(1) in that state the taxpayer is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, or a corporate stock tax; or

(2) that state has jurisdiction to subject the taxpayer to a net income tax regardless of whether, in fact, the state does or does not.

(o) Notwithstanding subsections (l) and (m), the department may not, under any circumstances, require that income, deductions, and credits attributable to a taxpayer and another entity be reported in a combined income tax return for any taxable year, if the other entity is:

(1) a foreign corporation; or

(2) a corporation that is classified as a foreign operating corporation for the taxable year by section 2.4 of this chapter.

(p) Notwithstanding subsections (l) and (m), the department may not require that income, deductions, and credits attributable to a taxpayer and another entity not described in subsection (o)(1) or (o)(2) be reported in a combined income tax return for any taxable year, unless the department is unable to fairly reflect the taxpayer's adjusted gross income for the taxable year through use of other powers granted to the department by subsections (l) and (m).

(q) Notwithstanding subsections (o) and (p), one (1) or more taxpayers may petition the department under subsection (l) for permission to file a combined income tax return for a taxable year. The petition to file a combined income tax return must be completed and filed with the department not more than thirty (30) days after the end of the taxpayer's taxable year.

(r) This subsection applies to a corporation that is a life insurance company (as defined in Section 816(a) of the Internal Revenue Code) or an insurance company that is subject to tax under Section 831 of the Internal Revenue Code. The corporation's adjusted gross income that is derived from sources within Indiana is determined by multiplying the corporation's adjusted gross income by a fraction:

(1) the numerator of which is the direct premiums and annuity considerations received during the taxable year for insurance upon property or risks in the state; and

(2) the denominator of which is the direct premiums and annuity considerations received during the taxable year for insurance upon property or risks everywhere.

The term "direct premiums and annuity considerations" means the gross premiums received from direct business as reported in the corporation's

- 1 annual statement filed with the department of insurance."
2 Page 5, between lines 18 and 19, begin a new paragraph and insert:
3 "SECTION 10. [EFFECTIVE JANUARY 1, 2006] **(a) IC 6-3-2-2,**
4 **as amended by this act, applies only to taxable years beginning**
5 **after December 31, 2005.**
6 **(b) IC 6-3-1-34 and IC 6-3-1-35, both as added by this act, apply**
7 **only to taxable years beginning after December 31, 2005."**
8 Renumber all SECTIONS consecutively.
(Reference is to ESB 213 as printed March 18, 2005.)

Representative Messer